ORIGINAL

E000029933

COMMISSIONER MYERS PROPOSED AMENDMENT NO. 1

DATE PREPARED: August 22, 2023

COMPANY: Arizona Public Service Company DOCKET NO.: E-01345A-23-0110

OPEN MEETING DATE: August 24, 2023

Purpose: This amendment sets the Rate Comparison Proxy (RCP) rate at the *actual* RCP rate of $0.053 per kWh, instead of the proposed RCP rate of $0.07619 per kWh which includes the 10 percent reduction cap.

Net Metering Background:

In 2008, the Commission adopted Net Metering Rules.[1] According to Staff, the ACC adopted these rules at a time when "the rooftop solar industry was first emerging, and they provided an incentive for the growth and adoption of rooftop solar by utility customers."[2]

In 2013, the Commission ordered a generic docket to be opened and workshops to be held to investigate Net Metering (NM) "cost-shift issues" after concluding that "the NM cost-shift issues will be faced by all Arizona electric utilities as the penetration of DG increases in each of the companies' individual service territories."[3] For example, the Commission determined that APS had "provided additional data that indicate the magnitude of cost shift within the residential ratepayer class is within the range of $800 to $1000 per year per DG customer,"[4] which according to APS amounted to "annual costs shifting to non-NM customers of approximately $18 million."[5]

After two workshops in 2014 and lengthy evidentiary hearings in 2016, the Commission decided in the Value and Cost of Distributed Generation docket to discontinue using NM, but grandfathering existing DG systems before the effective date of a utility's next rate case when the Commission's new value of DG methodology would be applied.[6] For these grandfathered NM customers, their DG-related rate design and net metering remain in effect for 20 years.[7]

---

[1]Decision No. 70567 (October 23, 2008).
[2]Decision No. 75859 (January 3, 2017), 104-05.
[3]Decision No. 74202 (December 3, 2013), 30.
[4]Decision No. 74202 (December 3, 2013), 7.
[5]Decision No. 74202 (December 3, 2013), 3.
[6]Decision No. 75859 (January 3, 2017), 155-56. In Decision No. 75932 (January 13, 2017), the Commission established that the grandfathering provisions begin on the date a customer files for interconnection, as opposed to the date the interconnection is accomplished.
[7]Decision No. 75859 (January 3, 2017), 156.

THIS AMENDMENT:

______ Passed ______ Passed as amended by ____________________

______ Failed ______ Not Offered ______ Withdrawn

ACC - Docket Control - Received 8/22/2023 9:50 AM
ACC - Docket Control - Docketed 8/22/2023 10:03 AM

This means that NM customers across the utilities that interconnected from 2008 through 2017/2018 (when utilities implemented the new RCP methodology) have been cost-shifting millions of dollars a year to non-DG customers, which will continue through 2037/2038.

When the Commission discontinued NM and implemented the RCP model in Decision No. 75859 (January 3, 2017), in effect it agreed with Staff that the incentive provided by NM for "the growth and adoption of rooftop solar by utility customers" was no longer needed and should be "replaced with a mechanism for the direct purchase of exports."[8] In other words, by 2017 there was enough rooftop solar adoption in the state to justify using a fairer compensation model.

RCP Methodology Adopted:

In Decision No. 75859 (January 3, 2017), the Commission discontinued NM and implemented the RCP as the replacement model to address the cost-shift problem embedded in the NM model.

In this Decision, the Commission determined that the "[v]aluation of DG exports should be based on an avoided cost methodology" and that the RCP's "[u]se of utility-scale solar obligations represents the *most reliable and objective* avoided cost proxy for rooftop solar and diminishes concerns for the inclusion of societal and environmental factors and other externalities in valuing solar DG exports," which are "speculative and inappropriate for ratemaking purposes." (emphasis added).[9] Not knowing how the RCP rate would change in the years following the Decision, the Commission established that RCP rate reduction should not exceed 10 percent per year.[10]

Not surprisingly, the situation has changed over the past 6.5 years since the Commission established the 10 percent reduction cap. When APS's initial RCP rate of $0.1290 per kWh was set in Decision No. 76295 (August 18, 2017), it was APS's actual RCP. However, each year thereafter the actual RCP has decreased by more than 10 percent. As a result, the 10 percent cap has kept the RCP rate artificially high and created a subsidy that non-DG customers have to pay for ten years for each year's tranche of new DG customers. Year by year, as the RCP has kept decreasing, the 10 percent reduction cap has resulted in an even greater subsidy for each subsequent tranche of DG customers because of the growing difference between the actual RCP and the capped RCP.

Although this amendment is prospective only and does not affect current DG customers, it is important to note that the DG customers in the first tranche are being compensated $0.1290 per

[8]Decision No. 75859 (January 3, 2017), 104-05.
[9]Decision No. 75859 (January 3, 2017), FOFs 134, 137, and 140. In this same Decision, the Commission had ordered Staff to also develop an alternative Avoided Cost methodology with five-year forecasting, but after granting two time extensions (Decision Nos. 77544, 77654), the Commission removed this requirement in Decision No. 77997 (May 5, 2021). Staff argued that this additional methodology "may no longer adequately address valuing avoided costs accurately due to changing technology that directly affects the required inputs of the methodology" (FOF 7). No opposition to Staff's request to remove the requirement was received (FOF 8).
[10]Decision No. 75859 (January 3, 2017), 152.

kWh for energy that costs today $0.053 per kWh,[11] which means non-DG customers are paying more than 140% above cost.

In addition, Staff noted in its Memorandum and Proposed Order that data provided by APS shows that in 2022 its customers paid DG customers $64.9 million for $41.0 million worth of energy, which is $23.9 million (58%) above cost. This kind of subsidization began in 2018 and is locked in through 2032.

As with the older NM methodology, the Commission has already recognized the subsidization problem with the current capped RCP rate. In APS's last rate case, the Commission rejected an intervenor proposal to increase the lock-in rate period from 10 years to 18 years due to concerns with "above-market prices" that would be paid by "other APS customers who do not benefit from receiving the RCP export rates."[12] The Commission concluded that the "likely *additional* subsidization would not be in the public interest" (emphasis added).

If subsidization for 18 years is not in the public interest, I would suggest that subsidization for 10 years is not in the public interest either. To minimize the ongoing subsidization, adopting the actual RCP rate of $0.053 per kWh is just and reasonable and in the public interest.

Reduction in RCP rate and Increase of DG Adoption:

One would expect that decreasing RCP rates would result in less customers adding rooftop solar systems; however, this has not been the case. Data provided by APS shows that even though the RCP rate has been going down each year, the number of new DG customers and the percentage of residential DG customers has been increasing year after year:

	APS residential customers	**APS residential DG customers**	**APS residential DG%**
2017	1,080,665	72,530	6.7%
2018	1,100,816	87,226	7.9%
2019	1,123,829	100,385	8.9%
2020	1,150,194	114,894	10.0%
2021	1,177,343	131,259	11.1%
2022	1,202,975	149,506	12.4%

This data shows the rooftop solar industry is firmly established in Arizona; it is no longer an emerging industry as it was in 2008. Adoption of rooftop solar is at an all-time high and growing. Therefore, incentivizing adoption of rooftop solar through subsidies at the expense of non-DG customers is no longer justified.

----

[11]This amount includes the avoided transmission capacity costs, avoided distribution capacity costs, and line losses with a previously negotiated collective value of $0.02 per kWh. Otherwise, the cost would be $0.033 per kWh.
[12]Decision No. 78317 (November 9, 2021), 358-59.

THIS AMENDMENT:

______ Passed   ______ Passed as amended by ____________________

______ Failed   ______ Not Offered   ______ Withdrawn

Page 4, Line 12

INSERT

12. We do not adopt Staff's recommendation. In order to mitigate the ongoing subsidization by non-DG customers that has resulted from the difference between the calculated RCP and the RCP subject to the 10 percent restriction, we find it is in the public interest to set APS's RCP rate at $0.053 per kWh, effective September 1, 2023.

Page 4, Line 22

REPLACE "$0.07619" **WITH** "$0.053"

******Make all conforming changes***

THIS AMENDMENT:		
______ Passed	______ Passed as amended by ________________________	
______ Failed	______ Not Offered	______ Withdrawn